

## Trends in Household Wealth Dynamics, 2003-2005

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## **1. Introduction.**

Based on PSID data, the note provides estimates of household's wealth holdings in 2003 and 2005<sup>1</sup>. The results indicate that per family net worth increased and financial wealth holdings stayed about the same during the period. The results also show that while rates of ownership of portfolio assets, such as home equity, business, stocks and IRA's, declined slightly between 2003 and 2005, the likelihood of carrying short-term debt increased.

The first three tables provide information on ownership rates and values of wealth holdings and its components. The results for the whole sample are reported in Table 1. Tables 2-3 cover African -American and white families separately. Tables 4 and 5 reports net worth and value of financial assets across different age, educational level, and race groups<sup>2</sup>. We also review long term trends based on Appendix Tables A.1 and B.1.

## **2. Household wealth holdings and household portfolio assets**

### **2.1 Net worth**

The average value of family net worth, including home equity, increased 12 percent from \$275,600 to \$309,600 between 2003 and 2005 (see Table1). During the same period the median of family net worth rose 10 percent to \$80,000. Among black families, the average family net worth fell slightly from \$59,900 to \$59,500, and the median family net worth increased by 10 % to \$10,000. Based on the sample of white families, the mean net worth increased by 10% to \$352,800, and the median value grew from \$105,100 to \$109,100.

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<sup>1</sup> This research was supported by a grant from the National Institute on Aging for waves 32 and 33 of the Panel Study of Income Dynamics, R01 AG16671, "Life Course Wealth and Health in the PSID."

<sup>2</sup> The calculations use weighted cross-sectional samples of PSID families in 2003 and 2005. There are 7822 families in 2003 sample and 8002 families in 2005 sample. All nominal values are adjusted for inflation and reported in 2005 dollars.

## **2.2 Longer term trends**

A longer term pattern for the wealth distribution can be seen in Appendix Tables A.1. and B.1. Going from 1984-2005, net worth (including home equity) became more negative at the 5<sup>th</sup> percentile. Only starting at the 40<sup>th</sup> percentile is there modest positive growth in net worth (including or excluding home equity). At the median net worth (including home equity) rises from \$58,900 to \$80,000. Growth was at a more rapid rate in the upper percentiles. At the 75<sup>th</sup> percentile wealth grew from \$169,700 to \$293,000 or about 73% greater than inflation. At the 98<sup>th</sup> percentile wealth nearly doubled, rising by 96% from \$1,071,000 to \$2,100,500 in 2005. By 2005 substantially more than 5% of the families held net worth of over \$1,000,000.

## **2.3 Home equity**

Home ownership rates declined slightly by .1 percent to 68.6 percent in 2005. While the downward trend in home ownership is characteristic of both white and black families, the black families experienced a stronger dip from 44.1 percent in 2001 to 42.5 percent in 2005. Among white families the ownership rate changed from 73.9 percent to 73.7 percent.

Among homeowners the average home equity value rose from \$126,300 in 2003 to \$154,100 in 2005, while the median value grew from \$79,600 to \$90,000 (see Table 1). Tables 2-3 show that the increase in home prices affected all racial groups, with home equity increasing stronger for black households than for white families. The average and median home equity values show 30 percent increase in the sample of black families. The average equity value increased from \$53,100 in 2003 to \$69,600, and the median grew from \$37,100 to \$48,000 during the period. Among white families the average equity value increased by 20% to \$159,700 and the median grew by 20% to \$100,000.

## **2.4 Business**

Continuing the 2001-2003 trend, business ownership rates declined and business value moved up between 2003 and 2005. Business ownership declined, from 12.0% to 11.4%. Conditional on owning, the average business value grew by 11 % from \$325,500 in 2003 to \$361,200 in 2005, and the median value grew from \$53,100 and \$60,000 (see Table1).

## **2.5 Stocks and IRA holdings**

Rates of stocks and IRA's ownership declined between 2003 and 2005. Stock ownership participation rates fell from 26.9 % to 24.4%, and IRA's ownership rates decreased from 34.3% to 33.2%.

Both white and black families experienced decline in stock market participation, but the rate of decline is stronger among black families. Thus, black families experienced 18% decline in stock ownership, from 6.4% in 2003 to 5.3% in 2005. The drop in stock market participation among white families is about 12%, from 32.0% to 28.0%.

While among stockowners the average value of stock holdings declined slightly from \$186,600 to \$186,000, the median values of equities increased 41% to \$45,000 in 2005. Black stockowners experienced, however, drop in both average and median equity values. Thus, the average dropped by 20% to \$83.3 and the median decreased by 25% to \$8,000. The overall increase in the median value of stock holding is due to strong 41% increase in the median reported by white stockowners.

Between 2003 and 2005, IRA's ownership rates decreased 3% while the values of mean and median of IRA holdings rose. Among holders, the mean IRA's value increased by 16 percent to \$112,200 and the median value increased by 26 percent to \$40,000.

## **2.6 Short-term debt**

After declining between 2001 and 2003 by 2%, rate of debt, i.e. non-collateralized debt such as unpaid balances on credit cards, student loans, medical or legal bills, increased by 2% between 2003 and 2005, from 49.8% to 50.9% (Table 1). Black families experienced strong 7% increase in likelihood of having debt, raising the rate to 49.7 percent (Table 2). In the pool of white families the rate of having debt rose by 2% to 51.8% (Table3).

In addition the average level of household debt increased also. Thus, in 2003 the average value of short-term debt was \$7,600 and in 2003 it was \$8,200. Among white households who report carrying non-collateralized debt, the average value of the debt increased by 2% to \$16,800 in 2005. The corresponding increase among black families was 16% to \$12,900.

## **2.7 Effect of age, education and race on net and financial household wealth**

Tables 4 and 5 report statistics for net and financial wealth holdings by age, education and race.

Average household net worth increased from \$ 275,600 in 2003 to \$ 309,800 in 2005 (Table 4). During the period the median value of household net worth increased by \$ 8,200 to \$80,000. While mean value of net worth increased only for white households, the median value increased for both white and black households. The trend in per family net worth varies across age groups. Thus households with head age 40 to 49 and 60 to 64 appear to be better off in 2005 than in 2003, while households 39 or younger experienced some decrease in median level of net worth. Examination of net worth dynamics across different educational levels reveals that the strongest growth occurred among the group with some college education, with the mean value increasing 31% to \$341,700 and the median value increasing 23% to \$85,200. Another educational group to show strong net worth growth is college graduates: mean value grew 10% to \$563,100 and median value increased 7% to \$222,000.

Between 2003 and 2005, the direction of household financial wealth dynamics is not clear with the average household financial wealth increasing by 6% to \$121,200 in 2005 and the median value declining 4% to \$10,000 (Table 5). The gain in the average value of household financial wealth appears to be concentrated among 30 to 59 years olds. Financial wealth of black families dropped both in terms of mean and median values. Among black families, the average financial wealth decreased by \$7,600 to \$20,800.

## **3. Summary**

Tables 1-5 point to a number of facts about household wealth changes between 2001 and 2003.

- Average and median levels of family net worth increased between 2003 and 2005.
- Rates of stocks and IRA's ownership declined during the period, with black families experiencing a stronger decline.
- While homeownership rates decreased slightly, the value of home equity grew strongly between 2003 and 2005. Similarly, the value of real estate in household portfolios grew during the period.
- Following other portfolio assets business ownership declined during the period while business value increased.
- Unlike mostly declining ownership rates among household portfolio assets, the ownership of short-term debt increased during the period. This increase is also accompanied by an increase in value of short-term debt.

**Table 1. Household Wealth: Panel Study of Income Dynamics (Thousands of 2003 dollars)**

	2003					2005				
	Mean	Median	Percent Own	Conditional on Own		Mean	Median	Percent Own	Conditional on Own	
				Mean	Median				Mean	Median
Business	39.1	0.0	12.0%	325.5	53.1	41.2	0.0	11.4%	361.2	60.0
Checking/Savings	22.8	3.2	82.1%	27.7	5.3	25.0	3.0	80.7%	30.9	5.0
Other Debt	7.6	0.0	49.8%	15.3	6.4	8.2	0.2	50.9%	16.1	6.0
Real Estate	32.8	0.0	15.7%	209.6	63.7	42.0	0.0	15.9%	264.3	80.0
Stocks	50.1	0.0	26.9%	186.6	31.8	45.5	0.0	24.4%	186.0	45.0
IRA	32.5	0.0	34.3%	94.8	31.8	36.5	0.0	33.2%	110.0	40.0
Vehicle	14.1	8.0				13.4	8.0			
Other	9.0	0.0	19.5%	46.1	12.7	14.3	0.0	18.9%	75.5	15.0
Home Equity	82.9	31.8	68.7%	126.3	79.6	100.3	36.0	68.6%	154.1	90.0
Total	275.6	71.8				309.9	80.0			

Notes:

1. Ownership status for vehicles was not asked. Only the value was asked.
2. All calculations are done using PSID weights.
3. The full sample includes all households in a given year. The race distinction in these tables do not 'aggregate' to these full sample values since they do not include non-black, non-white Hispanics which are included in the full sample.
4. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

Source: Elena Goukova & Frank Stafford, Institute for Social Research, Copyright University of Michigan (April, 2007)

**Table 2. African -American Household Wealth: Panel Study of Income Dynamics (Thousands of 2005 dollars)**

	2003					2005				
	Mean	Median	Percent Own	Conditional on Own		Mean	Median	Percent Own	Conditional on Own	
				Mean	Median				Mean	Median
Business	1.4	0.0	2.2%	61.9*	10.6*	2.2	0.0	2.9%	76.6*	3.0*
Checking/Savings	8.0	0.1	56.3%	14.3	1.6	4.4	0.0	52.4%	8.3	2.0
Other Debt	5.1	0.0	45.9%	11.1	5.3	6.3	0.0	49.1%	12.9	5.0
Real Estate	6.2	0.0	7.4%	83.7	42.5	7.2	0.0	7.0%	102.9	40.0
Stocks	6.7	0.0	6.4%	104.4	10.6	4.4	0.0	5.3%	83.3	8.0
IRA	9.1	0.0	10.0%	91.4	10.6	3.8	0.0	8.6%	44.1	15.0
Vehicle	7.3	2.7				7.8	2.0			
Other	4.5	0.0	11.4%	39.6	10.6	8.2	0.0	9.9%	82.9	14.0
Home Equity	21.8	0.0	44.1%	53.1	37.1	27.8	0.0	42.5%	69.6	48.0
Total	59.9	8.9				59.5	10.0			

Notes:

1. \* In 2003 and 2005 a few observations with business values greater than \$1,000,000 were excluded from calculations.
2. Due to the low percent of business ownership and the dispersion in values the median rather than mean gives more reliable estimate of the underlying population values.
3. Ownership status for vehicles was not asked in 2001 and 2003. Only the value was asked.
4. All calculations are done using PSID weights.
5. The full sample includes all households in a given year. The race distinction in these tables do not 'aggregate' to these full sample values since they do not include non-black, non-white Hispanics which are included in the full sample.
6. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

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**Table 3. White Household Wealth: Panel Study of Income Dynamics (Thousands of 2005 dollars)**

	2003					2005				
	Mean	Median	Percent Own	Conditional on Own Mean	Conditional on Own Median	Mean	Median	Percent Own	Conditional on Own Mean	Conditional on Own Median
Business	49.5	0.0	14.4%	345.1	53.1	50.1	0.0	13.1%	381.5	73.0
Checking/Savings	26.5	5.3	87.9%	30.2	6.4	27.4	4.0	85.9%	31.9	6.0
Other Debt	8.2	0.2	50.8%	16.1	6.7	8.7	0.3	51.8%	16.8	7.0
Real Estate	39.3	0.0	17.7%	222.5	63.7	46.7	0.0	17.2%	271.4	80.0
Stocks	61.4	0.0	32.0%	192.2	31.8	52.3	0.0	28.0%	186.9	45.0
IRA	38.6	0.0	40.4%	95.5	34.0	42.6	0.0	38.0%	112.2	40.0
Vehicle	15.7	9.6				14.6	9.0			
Other	10.1	0.0	22.2%	45.7	12.7	15.9	0.0	20.7%	76.7	15.0
Home Equity	94.9	43.5	73.9%	134.0	88.0	111.9	50.0	73.7%	159.7	100.0
Total	328.0	105.1				352.8	109.1			

**Notes:**

1. Ownership status for vehicles was not asked in 2001 and 2003. Only the value was asked.
2. All calculations are done using PSID weights.
3. The full sample includes all households in a given year. The race distinction in these tables do not 'aggregate' to these full sample values since they do not include non-black, non-white Hispanics which are included in the full sample.
4. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

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**Table 4. Household Net Worth (Thousands of 2005)**

	2003		2005	
	Mean	Median	Mean	Median
<b>Full sample</b>	275.6	71.8	309.9	80.0
<b>Age of Head</b>				
20 to 29	22.4	6.1	32.9	4.3
30 to 39	132.5	33.6	144.6	33.0
40 to 49	242.5	69.5	289.4	77.0
50 to 59	385.6	143.4	423.2	139.9
60 to 64	509.9	185.7	552.9	232.0
65 or more	458.2	192.4	460.2	196.0
<b>Education of Head</b>				
No High School Degree	92.6	21.6	100.0	20.0
High School Degree	198.4	57.3	202.4	60.0
Some College	261.0	69.0	341.7	85.2
College Degree or more	511.9	208.0	563.1	222.0
<b>Race of Head</b>				
White	328.0	105.1	352.8	109.1
Black	59.9	8.9	59.5	10.0

## Notes:

1. All reported values are computed using the PSID weights.
2. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

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<b>Table 5. Household Financial Wealth (Thousands of 2005)</b>				
	<b>2003</b>		<b>2005</b>	
	Mean	Median	Mean	Median
<b>Full sample</b>	114.4	10.4	121.2	10.0
<b>Age of Head</b>				
20 to 29	12.3	1.6	10.9	1.0
30 to 39	41.5	4.2	52.9	4.3
40 to 49	97.5	8.5	114.8	7.7
50 to 59	133.6	29.2	157.0	22.7
60 to 64	179.6	41.4	153.2	41.4
65 or more	240.2	45.6	209.9	40.0
<b>Education of Head</b>				
No High School Degree	28.1	0.5	24.4	0.4
High School Degree	64.7	5.3	72.1	4.0
Some College	108.2	10.6	108.8	12.0
College Degree or more	238.1	52.0	257.3	55.3
<b>Race of Head</b>				
White	136.7	18.0	138.2	15.0
Black	28.4	0.2	20.8	0.1

Notes:

1. All reported values are computed using the PSID weights.
2. Financial wealth is defined as the sum of wealth in stocks, mutual funds, investment trusts, IRA's, checking accounts, savings accounts, money market funds, CD's, government saving bonds, Treasury bills, corporate and municipal bonds, and cash value of life insurance policies.
3. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

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**Table A.1. Distribution of Net Worth with Home Equity included (Thousands of 2005)**

<b>Net Worth /home equity included</b>							
<b>Percentile</b>	<b>1984</b>	<b>1989</b>	<b>1994</b>	<b>1999</b>	<b>2001</b>	<b>2003</b>	<b>2005</b>
5	-1.1	-3.2	-6.2	-7.7	-7.7	-9.0	-8.8
10	0.0	0.0	0.0	0.0	0.0	0.0	-0.3
20	3.8	3.5	3.3	3.5	3.3	3.3	2.8
25	8.3	7.9	7.9	7.5	7.6	8.4	7.5
40	31.6	31.8	34.3	33.9	37.5	38.2	40.0
50	58.9	59.9	64.6	61.0	71.5	71.8	80.0
60	92.1	94.8	105.4	104.9	126.8	123.1	139.0
75	169.7	196.9	202.0	217.5	250.7	252.6	293.0
80	209.6	248.9	259.7	275.5	324.2	323.7	385.0
90	377.1	448.1	467.8	527.5	601.0	608.2	725.0
95	609.0	716.6	777.5	899.1	1069.7	999.9	1208.0
98	1071.2	1289.9	1357.3	1623.6	1736.9	1930.1	2100.5

Notes:

1. All reported values are computed using the PSID weights.
2. PSID wealth does not include pension wealth. Therefore, this excludes private defined contribution and defined benefit plans. It also excludes rights to Social Security wealth.

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**Table B.1. Distribution of Net Worth with Home Equity excluded (Thousands of 2005)**

<b>Net Worth /home equity excluded</b>							
<b>Percentile</b>	<b>1984</b>	<b>1989</b>	<b>1994</b>	<b>1999</b>	<b>2001</b>	<b>2003</b>	<b>2005</b>
5	-2.3	-5.2	-8.0	-10.1	-11.6	-15.0	-15.0
10	0.0	-0.2	-0.8	-1.9	-3.1	-3.7	-4.3
20	1.5	0.9	0.7	1.1	0.6	0.5	0.1
25	3.2	3.2	2.5	2.7	2.2	2.2	1.9
40	10.5	11.8	13.0	11.7	12.1	12.2	11.0
50	18.8	21.7	24.4	22.9	25.4	24.4	22.5
60	32.0	38.3	44.1	42.2	50.3	46.7	45.0
75	80.8	94.5	106.7	117.2	142.3	124.2	136.0
80	110.1	133.9	146.3	164.1	193.0	183.1	195.0
90	246.2	283.5	329.5	365.7	430.1	392.7	475.0
95	448.5	489.8	589.1	721.8	808.3	757.8	903.0
98	855.3	1039.5	1120.1	1383.3	1569.8	1539.0	1678.0

Notes:

1. All reported values are computed using the PSID weights.
2. PSID wealth does not include pension wealth. Therefore, this excludes private defined contribution and defined benefit plans. It also excludes rights to Social Security wealth.

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